



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 17, 2006

The UK remains convinced that Iran should be brought before the UN Security Council over its nuclear program and has started to draft a resolution to do so. This followed a proposal by Russia that Iran's uranium enrichment be conducted in Russia, which would allow greater international oversight of Iran's nuclear program. Iranian diplomats praised the proposal and urged the UK, France and Germany to return to the negotiating table. An Iranian source emphasized the country's willingness to remove existing ambiguities regarding its nuclear program through talks and negotiations. However the UK has questioned Iran's sincerity said that it still believes that UN Security Council action is needed.

The IEA said world energy demand is still expected to increase by 2.2% in 2006. It left its forecast for world oil demand this year unchanged at 85.1 million bpd, up more than 1.8 million bpd on the year, led by the US and China. The IEA said the

Market Watch

White House economic adviser Al Hubbard said energy prices are too high and President George W. Bush will likely suggest ways to lower prices in coming weeks.

The US National Weather Service reported that US demand for heating fuels is expected to be about 23% below normal this week with most of the main heating regions experiencing above normal temperatures. Demand for heating oil in the week ending January 21 is expected to be about 19% below normal.

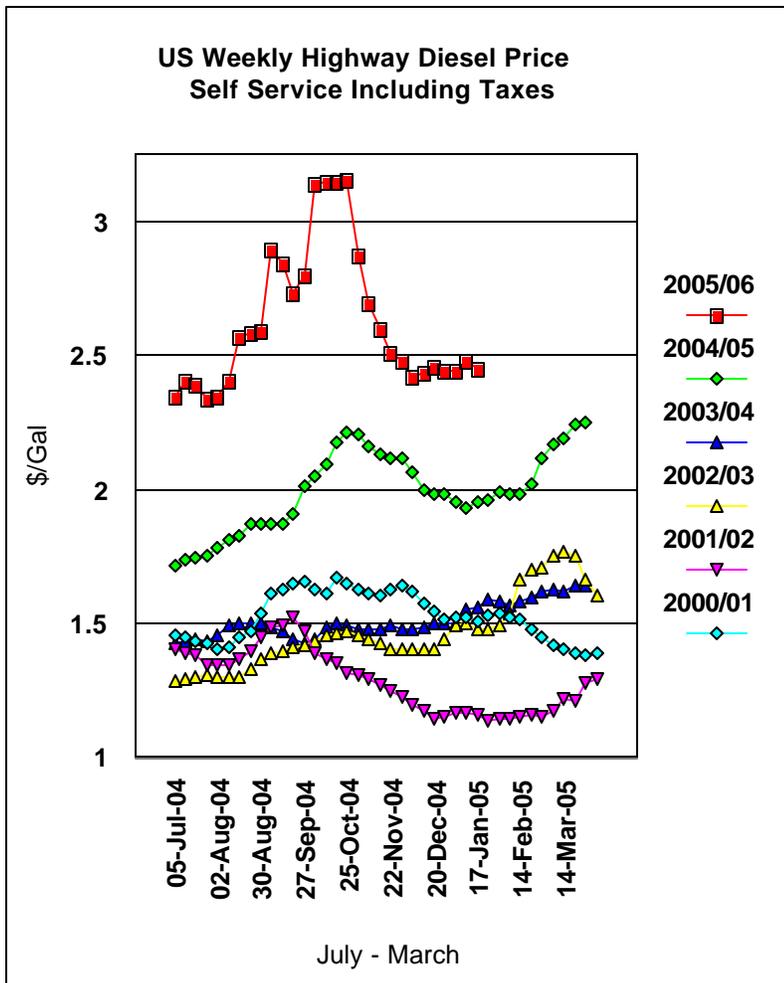
According to analysts and traders, the US Northeast could be more vulnerable to diesel supply shortages and price spikes as it will soon have to depend on trucks and boats for diesel shipments. Pipelines may find it difficult to carry new ultra low sulfur blend that is easy to contaminate. Diesel will be required to contain sulfur levels of 15 parts per million or less by October, down from the current 500 ppm limit. Pipeline operators have spent up to \$500 million preparing for the new rule and conducting several test runs. However they still expect some problems. Analysts said that once the diesel leaves the refineries, it would pick up sulfur left in pipelines from heating oil and jet fuel. The Colonial Pipeline has barred ultra low sulfur diesel shipments from Fairfax, Virginia. It is worried a long trip from US Gulf refineries could increase the sulfur content above the new ceiling.

The EIA and API have delayed the release of their weekly petroleum stock reports by one day to Thursday, January 19th due to the Martin Luther King Jr holiday.

The New York Board of Trade on Tuesday dropped plans to change its ethanol contract, saying it expects interest in the contract to increase. Last year, NYBOT said the contract would be changed and relaunched after an initial flurry of interest died down. NYBOT President and Chief Executive Harry Falk said international commodity trading houses were expected to trade the NYBOT's sugar based ethanol contract more actively.

Iraq demand on Tuesday the release of coastguards it said were seized by Iran during a clash involving suspected oil smugglers on their tidal frontier. However Iran denied knowledge of the incident. The incident is a test for the new warmth in relations between Iraq and Iran since pro-Iranian Shi'ites took control in Iraq following the US ousting of Saddam Hussein.

China's Foreign Ministry reported that Saudi King Abdullah is scheduled to visit China next week and is expected to discuss possible cooperation in oil and energy security.



complexity of oil markets, with their seasonality, differences in geographic fuel product demand and geopolitical uncertainties all had the potential to prompt increases in oil producing spare capacity and maintain the trend toward higher inventory. Meanwhile, the IEA cut its estimate for non-OPEC oil supply growth by 100,000 bpd to 1.3 million bpd this year compared with its expectations last month. It estimates non-OPEC output at 51.4 million bpd, down 180,000 bpd from its previous estimate. However it said new projects this year would result in a net increase in crude flows in contract with no growth at all last year. It revised upwards the call on OPEC crude to 28.6 million bpd, up 200,000 bpd on the year. The IEA also stated that oil stocks held by Organization for Economic Cooperation and Development countries fell by 1 day on the month to 52 days in November. It said OECD stocks fell by 11 million barrels in November to 2.678 billion barrels.

Venezuela's Oil Minister Rafael Ramirez said he did not rule out

production cuts at OPEC's next meeting at the end of the month.

The EIA reported that the US average retail price of diesel fell by 3.6 cents to \$2.449/gallon in the week ending January 17th. It also reported that the US average retail price of gasoline fell by 0.7 cents/barrel to \$2.32/gallon on the week.

According to the chief economist of the API, John Felmy, the new US fuel rules could further tighten the diesel fuel and gasoline markets. He said the new federal energy law eliminates the reformulated oxygen requirement in May and the ultra low sulfur diesel will be introduced in June 1, which will be present major transitions and challenges that could adversely affect the market. The mandatory use of renewable fuels such as ethanol in gasoline production will also cut into both domestic and imported supplies. He called on Congress to avoid imposing new controls on the industry that would make the supply situation even worse. He also repeated the industry's call for greater access to oil and gas rich areas currently off limits to drillers.

Refinery News

Traders reported that a fluid catalytic cracking unit at Citgo's 165,000 bpd refinery in Corpus Christi, Texas resumed operations on Tuesday after it was shut for unplanned work on Sunday.

ConocoPhillips plans to shut a fluid catalytic cracking unit at its 250,000 bpd refinery in Linden, NJ at the end of February for about five weeks of maintenance. Separately, ConocoPhillips plans to shut a

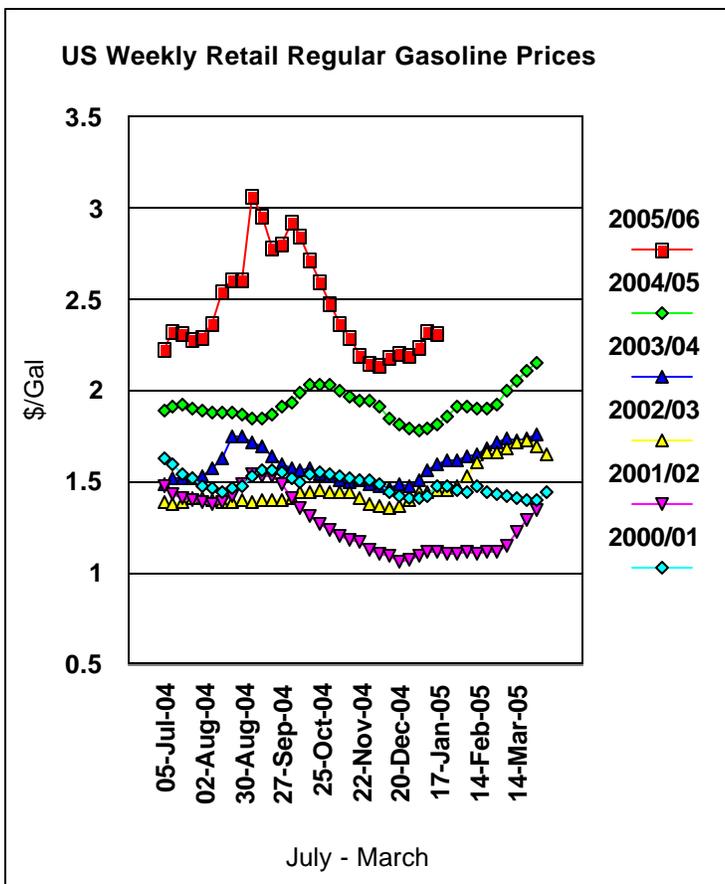
fluid catalytic cracking unit at its 229,000 bpd refinery in Sweeny, Texas for maintenance starting on Friday. The company is also expected to shut an aromatics recovery unit on Thursday for maintenance.

Western Refining plans to shut its 52,000 bpd south plant at its 108,000 bpd refinery in El Paso, Texas starting on January 22.

PDVSA plans to shut a fluid catalytic cracking unit at its La Isla refinery in early March for planned work. The 50,000 bpd unit will be shut for 38 days of planned work. Meanwhile, PDVSA has decided to postpone a fluid catalytic cracking unit expansion project at its El Palito refinery until around September. The 54,000 bpd catalytic cracking unit was originally scheduled to be shut during the first quarter of the year.

South Korea's GS-Caltex Corp is expected to operate its 650,000 bpd refinery at 640,000 bpd in February, unchanged from January. Meanwhile, S-Oil Corp is

expected to operate its 556,000 bpd in February at its 580,000 bpd refinery, unchanged on the month. Japan's Taiyo Oil Co reported an oil storage tank explosion at its 120,000 bpd refinery in Kikuma. It said oil refining operations were not affected by the explosion.



Production News

Colonial Pipeline extended allocations on its line carrying heating oil, diesel and jet fuel through the sixth shipping cycle.

Royal Dutch Shell's 120,000 bpd E.A. oilfield was shut since the weekend due to a technical fault unrelated to an attack on the field last week. The technical fault was detected shortly after the resumption. It declared a force majeure on its E.A. oilfield following its shut in. Meanwhile, Royal Dutch Shell has evacuated 330 workers from Nigeria and is considering more withdrawals after four foreign oil workers were kidnapped. Negotiators were working Tuesday to free the four workers. Nigerian militants threatened they would stage a series of attacks over the next few days to show oil companies their power if their demands were not met. The Movement for the Emancipation of the Niger Delta, who is holding four foreign hostages, also threatened to use more aggressive tactics against oil workers and their families starting February 1. The militants have called on oil workers to leave the Niger Delta. The four foreign oil workers listed their captors' demands and warned the military against any attempted intervention or rescue. The group has demanded local control of the Niger Delta's oil wealth, payment of \$1.5 billion by Shell to the Bayelsa state government to compensate for pollution and the release of three men.

Chevron Corp has no plans to cut its crude production or move any of its staff in Nigeria following the recent attacks on oil installations. It said it is monitoring the situation closely.

ExxonMobil Corp denied a report stating that loadings at its two major Nigerian oil export terminals were suspended due to fears of attacks by militants. A manager at Gulf Agency Co said oil tanker loadings were suspended at ExxonMobil's Qua Iboe and Yoho terminals which ship 550,000 bpd or 23% of Nigerian oil due to fears of attacks.

Saudi Arabia has booked four Very Large Crude Carriers this week to ship 8.2 million barrels of crude oil to the US in early February. Vela International Marine has provisionally hired the Millennium, the Gemini Glory and the Soro to deliver 280,000 tons each on February 2-3. It also booked the Aquarius Voyager to load 290,000 tons to the US Gulf on February 8.

A senior Iraqi official said Iraq's northern crude oil exports to the Turkish terminal of Ceyhan are still on hold. He said the pipeline was being inspected to see if there is any leak. Meanwhile, Iraq has delayed contracted Basra light crude oil for January due to low oil exports from southern oil terminals and a backlog of exports from previous months. Iraq's SOMO has to deal with a backlog of about 24 million barrels of crude deferred from last year because of difficulties such as bad weather, power cuts and technical problems.

Separately, Iraq's SOMO has set the February price of Basra Light to Europe at Dated BFO minus \$8.20/barrel, down \$1.30 on the month. The price for US buyers was set at a discount of \$10.50 to the second month of WTI, up 15 cents on the month. Meanwhile it set the price of Basra Light bound to Asia at the average of Oman/Dubai minus \$2.25, down 30 cents on the month.

Statoil said production at the 100,000 bpd Norne oilfield returned to normal on Monday after output was reduced for a week by a storm that prevented unloading. Separately, Statoil said it hoped to restart its Asgard B platform by the end of the week. It said about 118,000 bpd of condensate and 45 million cubic meters of natural gas has been shut in following a fire incident on Sunday.

Russia's Energy Ministry reported that extreme cold in Russia's main oil producing region of West Siberia has cut production by an average of 200,000 bpd to 9.45 million bpd between January 10 and January 16 compared to December's average. The extreme cold froze some oil wells solid. Russia's chief meteorologist said 2006 would be Moscow's coldest winter since 1979.

OPEC's news agency reported that OPEC's basket of crudes increased to \$57.71/barrel on Monday, up from \$57.16/barrel reported on Friday.

Taiwan's Bureau of Energy reported that Taiwan's oil products consumption increased by 6.3% on the year in November to 842,420 bpd. However the growth rate slowed from October with demand falling by 2.6% on lower fuel demand and as maintenance work at the island's refineries cut run rates. Utilization rates at Taiwan's two refiners, Chinese Petroleum Corp and Formosa Petrochemical Corp, fell to 92.9% in November from 96.7% the previous month. Average oil product consumption in the first 11 months of 2005 totaled 817,984 bpd or 2% more than the same period in 2004.

Brazil's Petrobras said it replaced its oil and production in 2005 with about the same amount in new reserves. It said its proven, overall domestic and overseas oil and gas reserves fell by 11.775 billion barrels of oil equivalent from 11.82 billion boe in 2004.

Ecuador's central bank reported that the country exported 12.57 million barrels of crude in November, up 19% on the year from 10.6 million barrels reported in November 2004. It reported that Ecuador's export revenues totaled \$506.88 million in November, up 57% on the year. In the first 11 months of

the year, Ecuador exported 118.67 million barrels of crude oil, down from 118.90 million barrels reported a year earlier.

Market Commentary

The oil market gapped higher from 64.10 to 65.10 amid Iran’s standoff over its nuclear program and the continuing problems in Nigeria, where the E.A. oilfield was shut in again over the weekend and militants threatened to stage further attacks on oil facilities. The crude market partially backfilled its gap as it traded to a low of 64.95. However the market bounced off that level and never looked back. It continued to trend higher amid the strength in the product markets. The crude market rallied over \$2.53 as it posted a high of 66.45 ahead of the close. It was well supported by reports that ExxonMobil suspended loadings at two of its export terminals due to fears of attacks by militants. However ExxonMobil later denied the report. The market settled up \$2.39 at 66.31. Volume in the crude was excellent with over 247,000 lots booked on the day. Meanwhile, the product markets settled sharply higher, with the gasoline market settling up 9.22 cents at 182.33 and the heating oil market settling up 7.65 cents at 179.15. The gasoline market gapped higher from 173.90 to 175.80, which it partially backfilled as it traded to a low of 175.50. The market however bounced off its low and never looked back. The market was well supported amid reports that ConocoPhillips is expected to shut a fluid catalytic cracking unit at its 250,000 bpd refinery in Linden, NJ at the end of February for about five weeks of maintenance while other companies also reported planned maintenance at their refineries. The market breached its resistance levels and rallied over 9.3 cents to a high of 182.50 ahead of the close. The heating oil market also rallied 8.2 cents on the day as it posted a high of 179.70 on the close. Despite the warmer than normal temperatures, the heating oil market gapped higher on the opening from 172.50 to 175.00. The market breached its resistance at 178.00 and rallied to its high ahead of the close. Volumes in the product markets were good with over 59,000 lots booked in the gasoline market and 55,000 lots booked in the heating oil market.

The oil market on Tuesday will be driven by the developments in Iran’s standoff over its nuclear program and the continuing problems in Nigeria. The oil market is seen retracing its gains if there is any sign that the Iranian or Nigerian situation is being resolved. The heating oil market should help the markets find some resistance amid the weather forecasts still calling for above normal temperatures. The market may also find some resistance as the market anticipates that the weekly petroleum stock reports would show builds in product stocks once again. The crude market is seen finding resistance at its high of

66.45 followed by 66.90, 67.30 and 67.55. Meanwhile support is seen at 66.00 and 65.50 followed by its opening gap from 64.95 to 64.10.

Technical Analysis		
	Levels	Explanation
CL	Resistance 66.31, up \$2.39	66.90, 67.30, 67.55 66.45
	Support	66.00, 65.50 64.95 to 64.10
HO	Resistance 179.15, up 7.65 cents	181.50, 181.75, 182.40 179.70
	Support	178.00 175.00 to 172.50
HU	Resistance 182.33, up 9.22 cents	183.50, 183.90, 187.50 182.75
	Support	180.00, 178.00 175.50 to 173.90